

PROGRAM TO SUPPORT IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

(NI-0140)

EXECUTIVE SUMMARY

Borrower:	Government of Nicaragua	
Executing agency:	Secretaría Técnica de la Presidencia [Technical Secretariat of the Office of the President (SETEC)]	
Amount and source:	IDB: (FSO)	US\$10.0 million
	Local:	US\$ 1.1 million
	Total:	US\$11.1 million
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	36 months
	Interest rate:	1% the first 10 years 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5% of outstanding balance annually
Justification for an innovation loan:	<p>The aim of this pilot project is to gain new experience and knowledge in the complex field of poverty reduction. It has been observed that the use of coordination – horizontal and vertical – and targeting criteria is not common in the process of allocating resources and designing and executing projects. Nor is there coordination between institutions working in this field, which makes it difficult to ensure that programs are effectively carried out and benefit those who need them most.</p> <p>This operation would build on Nicaragua's initial efforts in developing the Estrategia Reforzada de Reducción de la Pobreza [Strengthened Poverty Reduction Program] (ERRP)¹, determining the institutional process for its implementation in the country.</p> <p>An alternative working and decision-making institutional framework is proposed under the program for the execution of ERRP programs</p>	

¹ This has been prepared as one of the conditions under the enhanced structural adjustment facility (ESAF) agreed to with the IMF for consideration in the context of the Heavily Indebted Poor Countries Initiative (HIPC).

and projects. The aim is to encourage a coordinated and targeted effort by institutions in reaching quantitative goals established in agreement with civil society and the international community.

Objective: The specific purpose is to establish an effective model for comprehensive implementation of the ERRP that is proven and suitable for sustainable replication in the country.

Description: The proposed operation includes financing, technical assistance, and investments designed to achieve the goals established by the ERRP. The resources for this operation can be used in the following components:

Institutional strengthening (US\$1.3 million). The purpose of this component is to provide technical assistance resources to central and local authorities to strengthen their institutional capacity for implementing the ERRP.

The general criterion is that the activities must form part of a strengthening program, at the central or local level, directly related to implementation of the ERRP.

Pilot projects (US\$5.7 million). This component is designed to finance implementation of the ERRP through investments in ERRP programs and projects.

Such projects must have the following characteristics: they must have been coordinated between sector institutions and form part of a comprehensive plan; they must target a specific geographic area; they must fall within the poverty reduction strategy; and their impact must be reflected in indicators chosen for the purpose of monitoring ERRP implementation.

Communication and public participation and evaluation (US\$1 million). The Consejo Nacional de Planificación Económica y Social [National Economic and Social Planning Council] (CONPES), representing civil society, is responsible for coordinating social evaluation of the ERRP implementation plans.

Program resources will be used to finance consultancies and equipment to structure and execute the activities required as part of the social audit.

System for monitoring and evaluating implementation of the ERRP (US\$600,000). The purpose of this activity is to improve the severely limited management information available for implementation of the ERRP and move ahead in formalizing a

monitoring and evaluation system for measuring progress in fulfilling commitments under the strategy.

**The Bank's
country and
sector strategy:**

This operation is fully consistent with the Bank's strategy set forth in the country paper (GN-1931-1), and is designed to help reduce poverty and promote the development of human capital. The operation builds on similar projects to strengthen integrated and targeted multisector efforts in the fight against poverty.

**Environmental
and social
review:**

Since the planned investments are for minor works, the program is not expected to have an adverse impact on the environment. As a rule, the country's current environmental regulations will in any case be followed. Institutions that have their own rules and standards approved by the Bank, such as the Emergency Social Investment Fund (FISE), the Rural Development Institute (IDR) and other participating institutions, can follow those as well.

Benefits:

The project will make it possible to determine whether the institutional modality proposed—based on integrated, coordinated, and targeted implementation—represents the most effective means of combating poverty. If it does, the Government of Nicaragua would then seek to replicate it systematically.

The program will develop an evaluation and monitoring system based on indicators and targets agreed on with civil society and the international community. Progress in carrying out the program can then be evaluated, which should promote a culture of good performance and facilitate the social evaluation.

Risks:

Since this operation will introduce a new execution mechanism, one risk is that the next administration may not continue to implement it on a priority basis. To mitigate this risk, it was necessary to gain the support of civil society for the program. Accordingly, CONPES has been consulted and informed on the components to be financed through this operation, and has given its support to the preparations. In addition, ERRP was developed in consultation with civil society and the international community to make the country eligible under the HIPC initiative. This represents a commitment undertaken not only by the current administration but by the country. It is therefore expected that the next administration will also give high-priority to this program, which is designed to implement the strategy.

The institutional capacity limitations are serious and the possibility for coordinated activities by the deconcentrated and decentralized units of the line ministries is unknown. The risk is mitigated, however, by the institutional design proposed for this program, which is based on a flexible implementation plan.

Special contractual clauses:

Prior to the first disbursement:

1. The UCE must have been set up. Its general manager (with no objection from the Bank), three professionals to perform the work indicated in paragraph 3.19, and a delegate from each of the ministries participating in the fund must have been designated .
2. The program Operating Regulations (paragraphs 3.9 and 3.10) must have been approved with no objection from the Bank and must have entered into force.

Establishment of the baseline and the evaluation method and framework will be a condition precedent to the disbursement of resources for the investment component.

Once the basic conditions precedent specified in Article 4.01 (a), (b), and (e) of the General Conditions of the contract have been fulfilled – even if conditions (1) and (2) above have not been fulfilled— the Bank may disburse up to US\$250,000 to initiate program activities.

An international firm will be hired to perform a concurrent audit of the program (paragraph 3.42).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

Furthermore, this operation qualifies as a poverty-targeted investment (PTI) based on the geographic criteria (see paragraph 4.3). The borrowing country will be using the 10 percentage points in additional financing (see paragraph 2.26).

Exceptions to Bank policy:

None.

Procurement:

Procedures for international competitive bidding will be followed for works valued at more than US\$1 million, goods valued at more than US\$250,000, and consulting services valued at more than US\$200,000. Procurement in amounts below these levels will be subject to the procedures indicated in paragraphs 3.38 to 3.40.